

COMMONWEALTH HEALTH RESEARCH BOARD

**REPORT ON AUDIT
FOR THE TWO-YEAR PERIOD
JULY 1, 2010 THROUGH JUNE 30, 2012**



AUDIT SUMMARY

Our audit of the Commonwealth Health Research Board (Board) for the two year period July 1, 2010, through June 30, 2012, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no matters involving internal control and its operation necessary to bring to management's attention; and
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

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BOARD HIGHLIGHTS

Grant Program

The Commonwealth Health Research Board (Board) provides grant funding for human health research projects that could potentially benefit Commonwealth citizens. The Board awards grants from the Commonwealth Health Research Fund (Fund) to institutions of higher education and certain non-profit organizations. The Department of Accounts provides administrative and accounting support and the Virginia Retirement System (Retirement System) invests moneys for the Fund.

Research eligible for grant funding includes traditional medical and biomedical research related to the cause and cure of human diseases, as well as research related to health services and delivery of health care. The Board gives priority to research projects where the Board's funding can provide leverage for receiving contributions from other sources.

Institutions receiving funding must provide 33 percent matching funds. This increases the total amount of funds for each project. The Board awards both one and two-year grants. For one-year grants, the Board disburses 75 percent of the grant funds to the recipient upon signing of the grant agreement and the remaining 25 percent after the Board approves the final scientific and fiscal reports that document the outcome of the research and the use of the funds.

For two-year grants, grantees receive 75 percent of the first year's funding in July of the initial grant year. The Board pays the remaining 25 percent of the first year's funding with the second 75 percent payment at the beginning of the second year, following a satisfactory review of the initial interim scientific and fiscal reports. The grantee receives the final 25 percent after a satisfactory review of the final scientific and fiscal reports, which are due no later than the end of the following August, unless the Board approves an extension.

Financial Operations

Awards

Since the Board's inception, through fiscal 2012 it has awarded 149 grants totaling \$11.5 million. For fiscal 2011, the Board awarded seven new grants and continued funding for two existing grants totaling \$775,105. The institutions receiving these grants committed to providing \$312,808 in matching funds. These grants went to researchers from Mary Baldwin College, Radford University, James Madison University, Children's Hospital of the King's Daughters, Virginia Commonwealth University, Eastern Virginia Medical School, and the University of Virginia.

For fiscal 2012, the Board awarded five new grants and continued funding six existing two-year grants totaling \$1,061,644. The institutions receiving these grants committed to providing \$397,212 in matching funds. These grants went to researchers from Radford University, Children's Hospital of the King's Daughters, the University of Virginia, George Mason University, Virginia Commonwealth University, and Eastern Virginia Medical School.

Expenses

As seen in the following analysis, grant payments increased by \$370,000, 57 percent, between fiscal 2011 and 2012. The increase was the result of increases in the previous five year average value of the Board's funds between fiscal 2007 and 2011, which allows the Board to fund more grants. As result of changes to the Code of Virginia, starting on July 1, 2011, the Board switched from having a part-time employee to a full-time employee with benefits, which resulted in an increase in personal services. Additionally, due to an increase in grant applications that exceeded the capacity for one scientific reviewer, the Board hired a second scientific reviewer in fiscal 2011 who was subsequently contracted for all of fiscal 2012, which caused an increase in contractual services.

Analysis of Expenses by
Type for Fiscal 2011 and 2012

	<u>2011</u>	<u>2012</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Grant payments	\$654,444*	\$1,024,949	\$370,505	57%
Personal services	62,041	117,860	55,819	90%
Contractual services	20,615	38,414	17,799	86%
Other	<u>16,691</u>	<u>18,121</u>	<u>1,430</u>	<u>9%</u>
Total	<u>\$753,791</u>	<u>\$1,199,344</u>	<u>\$445,553</u>	<u>59%</u>

* Payments to grant recipients in fiscal 2011 totaled \$729,444; however, a refund of \$75,000 from the return of a previous fiscal year's grant payment reduced reported grant payments to \$654,444.

Source: Commonwealth Accounting and Reporting System

Investments

The Board's investments strategy mirrors that of the Retirement System, which uses fund managers to invest its much larger asset portfolio. The Retirement System discloses its investment portfolio and risks in the Commonwealth's Comprehensive Annual Financial Report issued by the State Comptroller.

The Fund that the Board uses for awarding grants has experienced gains consistent with the rest of the market. As shown in the schedule below, the Fund experienced an 18.65 percent gain on investments in fiscal 2011 and a 1.26 percent gain in fiscal 2012.

Activities and Balances of the Board's Investments

<u>Fiscal Year</u>	<u>Beginning Balance July 1</u>	<u>Investment Income (Loss)</u>	<u>Transfers for Grants and Expenses</u>	<u>Ending Balance June 30</u>	<u>Annual Return on Investment</u>
2004	\$24,077,564	\$ 3,387,309	\$ (407,749)	\$27,057,124	14.07%
2005	27,057,124	1,996,125	(841,423)	28,211,826	7.38%
2006	28,211,826	1,790,219	(764,885)	29,237,160	6.35%
2007	29,237,160	4,488,851	(884,928)	32,841,083	15.35%
2008	32,841,083	(984,285)	(1,067,703)	30,789,095	(3.00)%
2009	30,789,095	(6,391,721)	(1,177,922)	23,219,452	(20.76)%
2010	23,219,452	3,444,515	(901,935)	25,762,032	14.83%
2011	25,762,032	4,804,536	(758,151)	29,808,418	18.65%
2012	29,808,418	375,883	(1,077,956)	29,106,345	1.26%

Source: Commonwealth Health Research Board, Commonwealth Accounting and Reporting System, and Virginia Retirement System

The Fund's balance affects the amount of grants the Board can award; the Code of Virginia sets annual grant funding available as an amount not to exceed six percent of the moving market value of the Board's funds calculated over the previous five years. To be conservative and provide an accurate calculation of the funding available, the Board deducts administrative expenses from the amount set by the Code of Virginia to determine the amount available for actual grant awards.



Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
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March 25, 2013

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Commonwealth Health Research Board** (Board) for the two year period July 1, 2010, through June 30, 2012. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Commonwealth Accounting and Reporting System, review the adequacy of the Board's internal controls, and test compliance with applicable laws and regulations.

Audit Scope and Methodology

The Board's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

- Grant revenues and expenses
- Administrative expenses, including payroll
- Investment transfers and fund balances

We performed audit tests to determine whether the Board's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Board's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses. We confirmed investment balances with parties outside of the Board.

Conclusions

We found that the Board properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Board records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Exit Conference and Report Distribution

We discussed this report with management on April 15, 2013.

This report is intended for the information and use of the Governor and General Assembly, management, Board Members, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

GDS/alh

AGENCY OFFICIALS

COMMONWEALTH HEALTH RESEARCH BOARD

Robert S. Call, M.D. Chairman

George E. Broman, M.D. Vice-Chairman

L. Matthew Frank, M.D.

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